



The PFM Group

Public Financial Management, Inc.
PFM Asset Management LLC
PFM Advisors

King County, Washington Asset Backed Commercial Paper Analysis

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Table of

Executive Summary	I
Background on the Asset Backed Commercial Paper Market	II
Current Market Conditions	III
The King County Portfolio	IV
Strategies for Mitigating Risks	V
Future Approach to Asset Backed Commercial Paper	VI
Appendix	



Difficulties in the usually quiet money market, where investors purchase short-term debt securities, have drawn the attention of investors around the globe. Concerns over increasing defaults and delinquencies in the sub prime mortgage sector caused investors to be suspicious about any issuer with perceived exposure to this market. This includes banks, mortgage brokers, broker/dealers and asset backed commercial paper programs. Because of investors' lack of confidence in these issuers, some companies found it difficult and more expensive to attract borrowers. Investors worried that some asset backed programs or companies could be hurt by declining asset values in the mortgage markets. Soon, what started as questions about asset valuations evolved into a liquidity crunch, with some issuers being forced out of the market.

The asset backed commercial paper market suffered the most as liquidity concerns spread. Investors no longer drew a distinction between the various types of asset backed programs and avoided the sector entirely. This made it difficult for some programs to issue new securities to pay off existing debt holders. Disruptions to this extent had never been seen before in the commercial paper markets. Since the initial onset of the disruptions the commercial paper markets have begun to rebound. Buyers have reemerged and many asset backed commercial paper programs are now able to find buyers to meet liquidity needs. There are still some problems in specific and narrow sectors of the asset backed market. For instance, some SIVs and SIV-lites, which are explained later, are still having difficulties.

Most asset backed investors were caught off guard by the extent of the disruptions in the marketplace. Asset backed commercial paper had become widely used in short-term vehicles like money market mutual funds and by public entities around the country. All of the programs were, and most still are, very highly rated by all the rating agencies. The programs were viewed as a reasonable choice for investors seeking a degree of safety and return. It was an almost universal view that such features as credit enhancement and liquidity support would allow the programs to weather difficult markets. The difficulties in the marketplace have brought additional attention and scrutiny to the asset backed programs. Although it appears that many of the difficulties have past, there are still some unresolved questions. This report will review the specific risk characteristics present in some asset backed programs and the extent to which the county is exposed to those characteristics.

We begin in Section II – “Background on the Asset Backed Commercial Paper Market” with a broad view of the Commercial Paper market in order to provide context for our analysis and recommendations. Section II also examines the dual credit and liquidity issues affecting the Asset Backed Commercial Paper (“ABCP”) segment.

We then describe more fully the current conditions impacting the ABCP market in Section III – “Current Market Conditions”. Here, we examine the widening of spreads between ABCP and other instruments, the virtual shutdown in secondary market trading and the inability of ABCP issuers to roll their assets. Central Bank activity to increase available liquidity is also discussed.

In Section IV – “The King County Portfolio”, we provide a detailed review of the King County pool's ABCP portfolio. Our initial comments relate to the County's investments in ABCP. We then describe the key risk factors which impact the County's holdings. Three categories of risk are then derived, and each of the County's holdings is placed into one of the three categories. These are generally:



Executive Summary

programs which possess little exposure to the risk factors, programs that have some exposure to the risk factors and therefore should be carefully monitored, and finally, programs that have experienced some level of impairment. Additional attention is placed on the maturity structure of the portfolio's holdings, and the holdings of each category are viewed against their time to maturity.

Section V – “Strategies for Mitigating Risks” first offers commentary on the outlook for the ABCP market. While there are few opportunities currently available to mitigate risks in the current market environment, we examine those that are or could be expected to become available.

Finally, in Section VI – “Future Approach to Asset Backed Commercial Paper”, we offer our recommendations on issues related to investment policy guidelines and limitations concerning Commercial Paper investments as well as the credit review process for any future involvement in the ABCP market.

While many professionals of PFM Asset Management LLC have provided input to the analysis and recommendations presented here, the principal authors of this report are John Molloy, CFA, Senior Managing Consultant and Robert Cheddar, CFA, Chief Credit Officer and Sr. Portfolio Manager. Professional biographies for each, as well as a description of PFM Asset Management LLC's qualifications are included as an appendix to this report.



Background on the CP Market

Commercial paper is a short-term debt instrument issued by many companies to finance their daily operations. Most commercial paper is highly rated and viewed as a suitable investment by investors who desire safety and competitive yields. Commercial paper is a staple of money market mutual funds because of its high credit rating and attractive yields. Many public entities around the country invest in commercial paper for the same reasons. Commercial paper that is issued by finance and industrial companies is often referred to as unsecuritized commercial paper. While there are not any specific assets backing the debt, unsecuritized commercial paper is a senior obligation of the issuing company and has claim to all assets before any other debt or equity holders in the event of liquidation.

The first asset backed commercial paper ("ABCP") was issued in 1983. Citibank created a program called CIESCO to provide attractive funding to its customers. As ABCP programs grew, they became desirable for both banks and their customers. The programs allowed banks to move assets off of their balance sheet, in the process freeing up capital, while providing attractive funding to clients. Essentially, an ABCP program purchases assets from an originator or originators and then issues commercial paper to pay for the purchases. ABCP programs can hold a wide variety of assets, including mortgages, credit card receivables, auto loans, consumer loans and other types of trade receivables. The ABCP program holds the purchased assets to provide support to the outstanding commercial paper. ABCP programs also have other types of support usually provided by a bank. This support includes credit enhancement and liquidity support.

Over the past 24 years the ABCP market has evolved and grown. At the end of June 2007, outstanding ABCP was approximately \$1.48 trillion and made up 48% of the commercial paper market. ABCP had become widely accepted as a safe investment that pays attractive yields. The securities are used in money market mutual funds and purchased by public entities across the country. Because of the widespread acceptance of ABCP, Standard & Poor's had projected in a January 2007 research report that the amount of outstanding commercial paper would reach over \$2.1 trillion by 2009. As the market expanded, the types of ABCP being issued evolved with more and more complex programs being created.

If the ABCP market were to grow as S&P projected, more money market investors would need to become comfortable with the market. Since these investors typically desire the highest rated paper, ABCP programs were structured with this in mind. Most all programs carried an A-1 or A-1+ rating from Standard & Poor's and a P-1 rating from Moody's. Program administrators and managers worked closely with the rating agencies to ensure programs were structured to receive the highest ratings. Safety features such as credit enhancement and liquidity support helped programs achieve the desired ratings. Credit enhancement is intended to protect investors if the performance of the underlying assets deteriorates while liquidity support is designed to protect investors if issuers can't reissue or "roll" their commercial paper.



Background on the CP Market

The current credit turmoil started as a sub-prime and asset quality event¹, but quickly turned into a liquidity crunch. The potential of increasing delinquencies and foreclosures in the subprime mortgage market resulted in a sharp repricing of securities backed by these loans. The first signs of trouble were reported from hedge funds, where managers had taken on very concentrated and leveraged positions in the subprime market. Although subprime assets accounted for a relatively small portion of the underlying assets in ABCP programs, investors soon began to back away from the ABCP market. Investors began questioning the underlying assets in some programs as the fear of increasing defaults spread. Even the highest quality and best-managed programs found themselves struggling to roll maturities in this environment.

As credit conditions deteriorated, central banks around the globe have been forced to take action to ensure ample liquidity to the money markets. In the United States, the Federal Reserve's Federal Open Markets Committee has cut both the Federal Funds target rate and overnight discount rates. European Central banks have also taken steps to ensure liquidity. Borrowing costs for virtually every borrower have increased as credit risk has been repriced and credit standards tightened. The lack of available credit to even the most qualified borrowers now threatens to slow economic growth. In this environment borrowers have been forced to pay more for credit and investors now find themselves holding what appears to be riskier debt. In some instances issuers have been shut out of the short-term funding markets completely. This has been the case for some ABCP programs.

According to the Federal Reserve, there is currently \$922.6 billion in asset-backed commercial paper outstanding as of 9/26/2007. This represents a decline of 14.25% since the beginning of 2007. Total outstanding commercial paper dropped 3.85% to \$1,882.1 billion. The decline in the ABCP market is primarily due to the inability of some programs to sell new debt to pay off existing maturities as many investors are avoiding buying ABCP given their perception of increased risk. The week ended October 3, 2007, saw the first small increase (\$1.3 billion) in outstanding ABCP in the last two months.

An ABCP program typically has three choices if they can't roll their debt. The first is to extend the maturities of their debt. This option is only available to programs that have a pre-existing option to extend their maturity; these are the so-called "extendable" programs. Secondly, a program can tap lines of credit (LOC) at providing institutions. Essentially the program borrows from a bank to pay off maturities. Thirdly, a program can sell assets to raise funds to pay off investors. In some cases, there are prearranged liquidity asset purchase agreements (LAPA) with liquidity providers. Where programs have not been able to, or have chosen not to, issue new debt they have been forced to utilize one of these alternative liquidity sources.

¹ Subprime lending is the practice of making loans to borrowers who do not qualify for the best, or "prime", market interest rates because of their deficient credit history. Asset quality event refers to the generally lowering perception of safety related to real estate that backs up the subprime loan.



Background on the CP Market

As liquidity dried up in the ABCP market, the level of concern increased amongst investors. For a time, investors ignored the characteristics of most programs and simply avoided the market. As the credit markets regained their footing, investors began to focus on the strength of individual programs. In our view the strength of an ABCP program is determined primarily by:

- quality of management,
- program structure
- quality of assets, and
- reliability of liquidity providers.

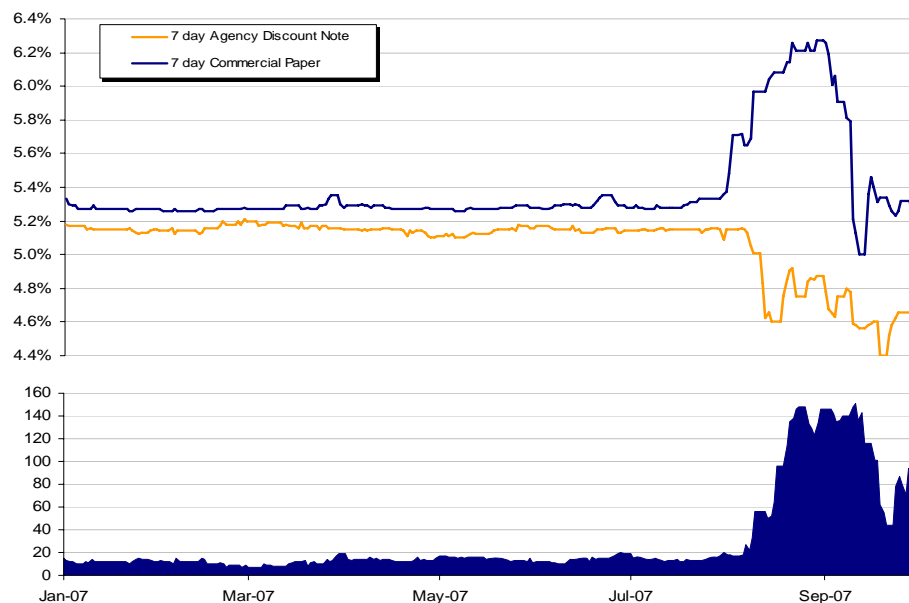
At the height of the credit concerns, investors became concerned that outstanding liquidity agreements would not be made available to some programs. It is estimated that there is roughly \$1 trillion in outstanding lines of credit and other liquidity provisions with banking institutions around the globe. These lines being simultaneously tapped would be the equivalent of banks being forced to make loans or adding an additional \$1 trillion of assets onto their balance sheets. The prospects, although unlikely, of all of these facilities being tapped at once frightened investors further.



Current Market Conditions

At some points during the past two months it became difficult for some companies and ABCP programs to sell commercial paper. These periods were characterized by wider credit spreads in the federal agency (e.g., FNMA, FHLMC) and corporate debt markets (see the graph below illustrating the changing rates and widening spread between unsecuritized commercial paper and federal agency discount notes) and increasingly volatile movements in the credit default swap markets. As central banks around the globe acted to provide liquidity to the market, spreads in both the unsecured and ABCP market have compressed.

**7-day Maturities:
Agency Discount Notes vs. Unsecuritized Commercial Paper**



Source: Bloomberg

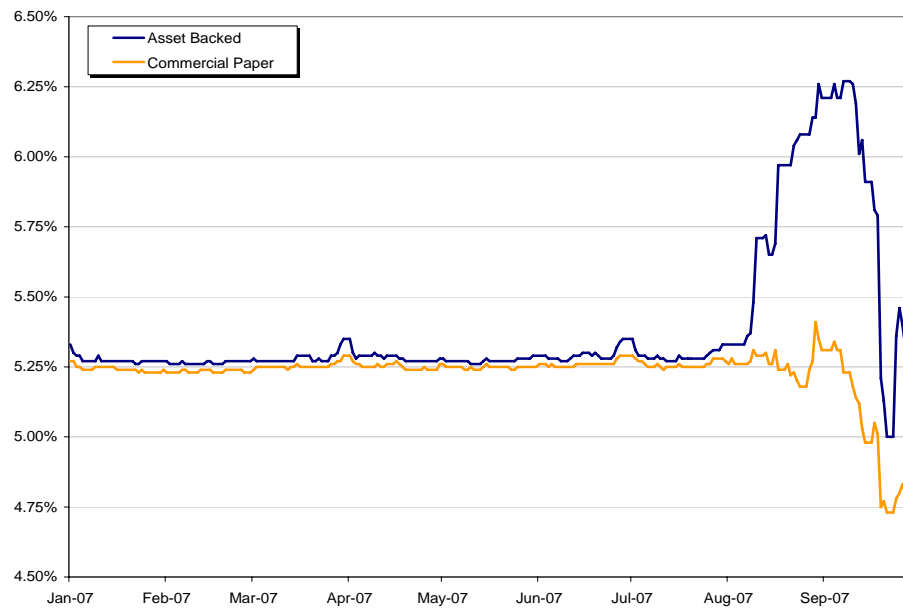
Although some order has been restored to the credit markets, bid/ask spreads are still wider than normal and credit spreads are volatile. Conditions are somewhat better in some parts of the unsecuritized commercial paper market (see the chart below which illustrates the widening of the spread between rates on unsecuritized commercial paper and asset backed commercial paper). Many issuers in the unsecuritized arena have been able to resume normal issuance and some have served as a haven of safety of sorts for commercial paper investors. In some cases ABCP programs have been able to issue debt. Although some issuers have been able to issue debt, they are doing so at elevated levels and shorter maturities. The secondary market in commercial paper is beginning to function again, although at much wider bid/ask spreads. Additional liquidity has been added to the system by the Federal Reserve's willingness to accept ABCP at the discount window² as collateral.

² The discount window is the term for each regional Federal Reserve Bank's lending facility for loans made to commercial banks and other depository institutions. All discount window loans are fully secured.



Current Market Conditions

Daily Yields
7-day Commercial Paper vs. 7-day Asset Backed Commercial Paper



Source: Bloomberg



The King County Portfolio

A. Reasonableness of ABCP in King County Pool

Given the widespread use of ABCP in money market mutual funds, government investment pools and other similar short term investment funds, it was reasonable for the King County pool to purchase ABCP for its portfolio.

This view is supported by the overall size of the CP market and its Asset Backed subset, the high quality ratings most possessed, and the tight yield spreads ABCP had to other money market instruments. These factors contributed to a reasonable sense of security related to these instruments.

King County is not alone in having made investments in ABCP. While many government investment pools permit government-only investments (Treasuries and Agency securities), those that permit money market instruments, such as bank Certificates of Deposit, Banker's Acceptances, and Commercial Paper, often hold a significant percentage of assets in these instruments, both to diversify their holdings as well as receive the higher yields they often provide. Detailed and current information on the holdings of most government investment pools is difficult to obtain; however, we have found relatively current information on a number of pools that do permit commercial paper investments and have ABCP programs in their portfolios. An upcoming report by Standard & Poor's on California counties, which will include a review of investment pools that many of them manage, should offer additional insights when published. The table below outlines several government investment pools that, in the recent past or currently, invested in asset backed commercial paper holdings. This is only a partial list, but it is clear that public agencies around the country have been active in the ABCP market.

Fund Name	Fund Sponsor	S&P Rating	Asset Backed CP Exposure
State of Arizona LGIP	State of Arizona Treasurer	NR	As of 8/31/2007, Arizona LGIP held a fairly significant amount of ABCP. Almost 200 million (7% of portfolio) was invested in ABCP. Some of this CP would fall into a higher risk category.
Colorado Surplus Asset Fund Trust (CSAFE)	Davidson Fixed Income Management, Inc.	AAAm	As of 6/30/2007, CSAFEE held a very small amount of ABCP. In general, ABCP programs held were lower in risk.
Colorado Local Government Liquid Asset Trust (COLOTRUST PLUS+)	Colorado Investor Services Corp.	AAAm	As of their 6/30/2007 quarterly report, COLOTRUST held a significant amount of ABCP. A 30MM piece of these holdings (SIV) will mature in late November 2007.
Louisiana Asset Management Pool (LAMP)	State of Louisiana Treasurer	AAAm	As of 8/31/2007, LAMP held about 3% of their \$1.6B portfolio in ABCP. LAMP's ABCP names were distributed between high and lower quality programs.
Maryland Local Government Investment Pool	State of Maryland Treasurer	AAAm	As of 6/30/2007, MLGIP held several pieces of ABCP. With this in mind,



The King County Portfolio

			there is a good probability that the fund currently holds additional ABCP.
New MexiGROW Local Government Investment Pool	New Mexico State Treasury	AAAm	This LGIP has purchased and continues to hold some ABCP. However, this ABCP falls into a lower overall risk category.

The broker-dealer community fostered the impression of safety as well through its representations that ABCP instruments were indeed quite similar in risk to unsecured corporate instruments. The overall market for interest rate sensitive credit instruments held this to be the case as evidenced by the very low risk premium for such instruments over treasuries and agency discount notes. Issues related to lack of disclosure and transparency in the ABCP market were to some extent minimized when spreads of ABCP to other higher quality instruments were very narrow. As the market began to reprice risk, it took a broad brush to the entire ABCP segment. The lack of transparency regarding holdings and the time delay with which ABCP programs released information contributed to virtually all programs experiencing the inability to roll their issues and for investors to find a secondary market.

With stepped up rigor in the evaluation of programs, by ratings agencies, other analysts and investors, most programs as we are now finding out are invested in high quality holdings, are expected to mature on schedule, and for many there are the beginnings of a new secondary market and the ability to roll their assets. Issuers have also stepped up their disclosure and transparency in order to calm the markets. There are of course continuing risks to certain programs that have structural or other issues. We discuss these in greater detail below.

B. Current Investment Portfolio Risk Profile

Sources of Potential Risk

Several categories of potential risk can be identified in the current market. Although the entire ABCP market has been affected, programs with certain characteristics have had more difficulty than others. Even though conditions may change moving forward, it is possible to speculate on what types of programs may have some difficulties.

1) Extendable Notes:

As of March 31, 2007, extendable asset backed programs made up 13% of the ABCP market. The sector is made up of extendable commercial notes and secured liquidity notes. In extendable ABCP programs the issuer has the right to extend the maturity of the notes if the commercial paper can't be rolled. This could create difficulties for investors who had expected to make use of the funds on their planned maturity date. In addition, it extends the credit risk of holding the notes an additional several months. There have been instances of extendable ABCP programs choosing to extend the maturities of their notes. The County currently has no exposure to this part of the ABCP market.



2) ABCP Program Structure:

a.) Structured Investment Vehicles (SIV):

SIVs are arbitrage vehicles issuing short-term and medium-term debt to finance the purchase of assets. The managers of these programs seek to profit from the difference in issuing short-term debt and purchasing longer-term assets. Investment managers typically run these programs. SIV programs often contain triggers, which could force the liquidation of assets. The triggers are typically based on the value of underlying assets within the program. Fitch estimates that 58% of the assets in SIVs are rated AAA while another 32% are rated AA. Despite the very high credit quality of assets within the programs, the unprecedented disruptions in the credit market have caused some asset values to drop. These events have forced credit agencies to lower the credit rating of some programs. The County has some exposure to SIVs.

b.) SIV-lites:

SIV-lites are similar to SIVs with the exception that these programs have a finite life. SIV-lites make up less than 1% of the ABCP market. Unlike SIVs, SIV-lites cannot issue medium term debt, which reduces their funding options. In addition, these programs have committed liquidity support but it is subject to market tests and triggers. The rating agencies assumed these triggers would never be met. Most SIV-lites are made up of 100% United States originated mortgage backed securities. As the value of securities in the mortgage backed sector declined, triggers were breached, forcing some programs to wind down. This sector of the ABCP market has experienced the most difficulty. The County has exposure to one SIV-lite program, Mainsail II LLC.

c.) Collateralized Debt Obligation (CDO) or Security Arbitrage Vehicles:

CDOs can be backed by a wide variety of debt. This can include residential mortgages, commercial real estate loans, bank loans and other types of loans. Typically CDOs held in ABCP programs are very highly rated. Although there are a wide variety of CDO types, investors have not drawn a distinction and have been hesitant to invest in structures containing CDOs. Security Arbitrage Vehicles are backed by securities that trade in the marketplace. Security Arbitrage programs can contain a wide variety of securities and most are rated AAA or AA. Programs that contain CDOs and other securities typically have less flexibility in restructuring assets than some other types of programs if assets begin to underperform. The County has no current exposure to CDO type programs. Two issues previously held had matured as of the date of this report.

3) Weak management or administration teams:

The explosion in the growth of ABCP programs has brought many new entrants into the market. There is a wide variety of experience amongst program managers and administrators in the market. Some programs, particularly SIVs, may experience differences in management styles and philosophies. ABCP programs with strong management teams are more likely to be able to survive difficult market conditions. The ideal combination is a well established team with the backing of a major bank.



4) Inadequate liquidity facilities:

Liquidity facilities provide support in the event that a program cannot roll their commercial paper. Liquidity support can come from one of several sources. The most common are Liquidity Asset Purchase Agreements (LAPA) or Letters of Credit (LOC). Typically a bank or group of highly-rated banks provides liquidity support. So far, it appears that liquidity facilities currently in place have allowed most programs to continue to operate. An additional source of liquidity is the sale of assets from the program. A growing concern is that, as more programs are forced to use available liquidity sources, banks may be forced to buy assets from or extend credit to the programs. With nearly \$1 trillion in ABCP outstanding, the ramifications for banks could be troubling. Banks may be forced to extend large loans to the programs or purchase assets and hold them on their own balance sheets. It is possible that some liquidity providers could resist fulfilling liquidity agreements.

C. Categorization of Current Portfolio

After analysis of the broad characteristics of King County portfolio, we have divided the holdings into three groups, summarized below, based on our assessment of the characteristics of each program. The groups do not represent a prediction of which programs may have difficulties in the future. Rather, it is an assessment of the broad characteristics of each program based on the characteristics listed in Part B above.

Portfolio holdings reviewed below are those in the portfolio that are expected to mature from October 9, 2007 to January 25, 2008. This portfolio contains 16 different holdings, representing 11 different ABCP programs and \$561,903,000 in par amount, representing approximately fourteen percent (14%) of the County's \$4.1 billion investment pool.

It should be noted that the portfolio has seen significant reductions in the amount of asset backed commercial paper it held as of August and September. At September 21, the portfolio held \$933,224,000 of par amount in ABCP in twenty-six (26) holdings from seventeen (17) different issuers, representing approximately twenty-three percent (23%) of the County's \$4.1 billion investment pool. Those securities that have matured are shown in the table below.



The King County Portfolio

Issuer / Administrator	Program Type	Rating *	Group	Par Amount	Maturity Date
Orchid Funding Corporation <i>ABN AMRO Bank N.V.</i>	Corporate Loans (Receivables)	NR/P-1/F1	I	50,000,000	9/17/2007
Centrestar Capital No. 1, LLC <i>National Australia Bank Limited</i>	Highly Rated Securities	NR/P-1/F1	I	50,000,000	9/20/2007
McKinley Funding <i>Vertical Capital Investment Advisors</i>	Asset Backed Securities (CDO)	A-1+/P-1/NR	I	44,833,000	9/21/2007
Premier Asset <i>Societe Generale</i>	SIV - Securities \$ and Non \$	A-1+/P-1/NR	I	38,000,000	9/25/2007
Rhineland Funding Capital Corporation <i>IKB Deutsche Industriebank AG/ Societe Generale</i>	Securities - Hybrid Program	NR/P-1/F1	II	15,000,000	9/25/2007
Rhineland Funding Capital Corporation <i>IKB Deutsche Industriebank AG/ Societe Generale</i>	Securities - Hybrid Program	NR/P-1/F1	II	20,000,000	9/25/2007
Abacas Investments <i>Absa Bank Limited/ QSR Management Ltd.</i>	SIV - Securities	A-1+/NR/F1+	II	50,000,000	10/3/2007
Athos Funding <i>Terwin Money Management LLC</i>	Asset Backed Securities (CDO)	A-1+/P-1/NR	II	50,000,000	10/4/2007
Mainsail II LLC (3) <i>Solent Capital Partners</i>	SIV - "Lite"	B(-)/NP/NR	III	25,000,000	10/4/2007
Mainsail II LLC (3) <i>Solent Capital Partners</i>	SIV - "Lite"	B(-)/NP/NR	III	28,488,000	10/4/2007

Mainsail II LLC, the last two lines in the table immediately above, were scheduled to mature on October 4, 2007. This program has not paid its commercial paper investors as of this writing. Additional detail is found below, under "Group III".

A complete table showing the categorization of each commercial paper issuer along with the program type, rating, administrator/manager and par invested is included at the end of this report.

Group 1 – Least Concern:

This group causes the least amount of concern. Holdings in this group are comprised of the unsecured debt of issuers that have not had difficulty accessing the current marketplace. This group also includes some ABCP programs with favorable characteristics. These programs are typically backed by receivables and may be single seller or multi-seller programs or programs with strong bank sponsorship. Multi-seller programs purchase assets from a wide variety of sellers, while single seller programs purchase assets from one seller. This group also consists of asset-backed programs with financially strong and experienced administrators and managers. Although SIVs and SIV-lites as a group cause the most concern currently, those with major bank support or sponsorship are included in this group. Although there is a high level of comfort in these holdings, this opinion could change if market conditions change dramatically. Please refer to the table below for the list of programs placed into Group 1.

Issuer	Program Type	Rating	Total Par Amount	Maturity Date
Panterra Funding LLC <i>Citicorp North America, Inc. (CNAI)</i>	Receivables	NR/P-1/F1	35,000,000	10/9/2007
Panterra Funding LLC <i>Citicorp North America, Inc. (CNAI)</i>	Receivables	NR/P-1/F1	17,000,000	10/11/2007
Vetra Finance Inc <i>Citigroup Alternative Investments</i>	SIV - Securities	A-1+/P-1/NR	25,000,000	10/11/2007
Vetra Finance Inc <i>Citigroup Alternative Investments</i>	SIV - Securities	A-1+/P-1/NR	19,000,000	10/11/2007
Swedish National Housing	Sovereign Agency	A-1+/P-1/NR	50,000,000	10/19/2007
Vetra Finance Inc <i>Citigroup Alternative Investments</i>	SIV - Securities	A-1+/P-1/NR	37,603,000	1/11/2008



The King County Portfolio

The King County pool portfolio account is currently invested in five (5) different Group 1 holdings from three (3) different issuers with a par amount of \$183,603,000 representing slightly less than 33% the overall ACBP portfolio holdings.

Group 2 – Higher Level of Potential Risk Characteristics:

Group 2 represents issuers for which we would recommend close monitoring. Inclusion in this group is not a prediction of future problems. This group includes issuers with some of the potential risk characteristics listed above. Included in this group are many of the SIV programs and Security Arbitrage Vehicles. Please refer to the table below for the list of programs assigned to Group 2. Also included in this group are programs managed or administered by non-bank entities. It is our view that programs managed and administered by large banking institutions will enjoy a greater level of support if conditions continue to worsen. The King County pool portfolio account is currently invested in nine (9) different Group 2 holdings from seven (7) different issuers with a par amount of \$328,300,000, representing 58% of the overall ACBP portfolio holdings.

Issuer	Program Type	Rating	Total Par Amount	Maturity Date
Rhineland Funding Capital Corporation <i>IKB Deutsche Industriebank AG/ Societe Generale</i>	Securities - Hybrid Program	NR/P-1/F1	15,000,000	10/10/2007
Rhinebridge LLC <i>IKB Credit Asset Management</i>	Asset Backed Securities	A-1+(-)/P-1(-)/F3(-)	50,000,000	10/11/2007
Axon Financial Funding <i>Axon Financial Funding</i>	SIV - Securities	A-1+(-)/P-1(-)/F1+(-)	25,000,000	10/18/2007
Abacas Investments <i>Absa Bank Limited/ QSR Management Ltd.</i>	SIV - Securities	A-1+/NR	35,000,000	11/29/2007
Tango Finance Corp <i>Rabobank Nederland</i>	SIV - Securities \$ and Non \$	A-1+/P-1/NR	50,000,000	12/20/2007
Harrier Finance US <i>Westdeutsche Landesbank GZ</i>	SIV - Securities \$ and Non \$	A-1+/P-1/NR	25,000,000	1/10/2008
Rhinebridge LLC <i>IKB Credit Asset Management</i>	Asset Backed Securities	A-1+(-)/P-1(-)/F3(-)	50,000,000	1/18/2008
Victoria Finance LLC <i>Ceres Capital Partners</i>	Asset Backed	A-1+/P-1/NR	53,300,000	1/24/2008
Harrier Finance US <i>Westdeutsche Landesbank GZ</i>	SIV - Securities \$ and Non \$	A-1+/P-1/NR	25,000,000	1/25/2008

Group 3 – Impaired Programs:

This group contains programs that have become impaired to the point that a favorable workout may be in doubt. King County is currently invested in one Group 3 holding from Cheyne Finance with a par amount of \$50,000,000 representing 8.9% of the overall ABCP portfolio.

Issuer	Program Type	Rating	Total Par Amount	Maturity Date
Cheyne Finance <i>Cheyne Capital Management Limited/ QSR Management Limited</i>	SIV - Securities \$ and Non \$	A-2(-)/NP/NR	50,000,000	10/17/2007

The asset market values of Cheyne Finance have dropped enough to cause an "enforcement event". An enforcement event in the words of S&P could result in "acceleration of all claims, liquidation of the portfolio and repayment of creditors in the order of seniority." This has resulted in the Trustee appointing a receiver, Deloitte Touche, to determine strategy. One function of the trustee is to determine the expected proceeds of any asset liquidations and begin that process. Moody's downgraded Cheyne Finance commercial paper from "Prime-1 on review for possible downgrade" to "Not Prime" on October 4, 2007. Notwithstanding this



The King County Portfolio

downgrade, the County reports that Deloitte & Touche LLP confirmed in a conference call to all Cheyne investors on October 4th that the program is still paying commercial paper obligations as they come due and estimates that cash is available to pay all upcoming liabilities through the end of October. Since the maturity date for the County's investment is October 17, 2007, the County remains optimistic about receiving its full principal and interest on this date.

The situation for Mainsail II LLC, scheduled to mature on October 4, 2007 so not included in the table above, is one the County has been monitoring very closely. When Mainsail II failed to meet certain financial tests in late August 2007, the Bank of New York stepped in as the trustee for Mainsail and suspended all transactions, including acquisitions of new assets and payments to commercial paper holders. Consequently, the County has not yet received the principal and interest due on its Mainsail II investment.

Late on October 4th, Bloomberg reported that a proposed restructuring plan by Barclays Capital to repay Mainsail II investors had been delayed as the plan failed to win approval from enough stakeholders. The County is following this developing situation directly and is relying on built-in safeguards in the program to protect the interests of senior creditors such as the County. During an enforcement event, all senior creditors must be paid prior to payments to any junior creditors. The County reports that it will continue to work, in conjunction with the trustee and other senior creditors, to exercise its fiduciary rights and responsibilities to protect the County's investment in Mainsail II.

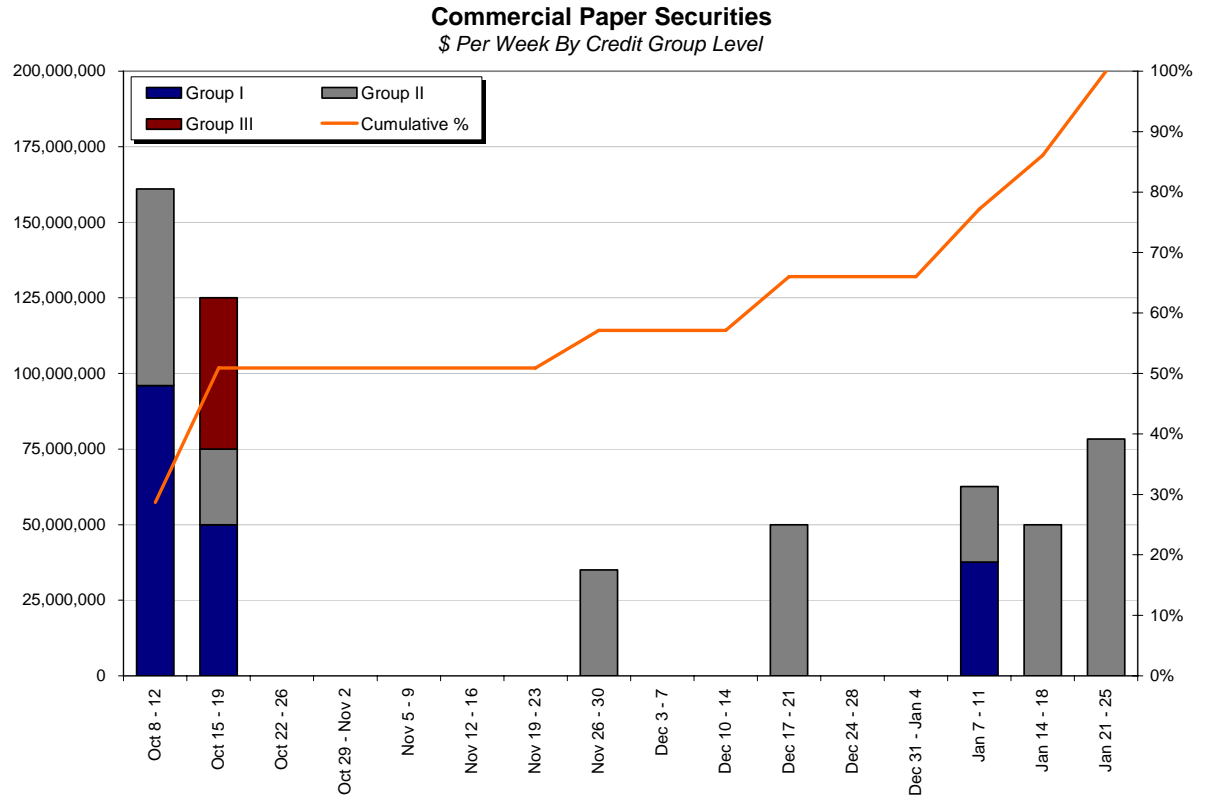
D. Maturity Profile

Making the assumption that all issues (including the Group 3 category) would mature on schedule, the commercial paper concerns could be relatively short-lived. The longest dated maturity in the County's portfolio is the Harrier Finance SIV, maturing on January 25, 2008. The cumulative percentage of maturities is shown in the graph below, along with the breakdown of maturities categorized by the three "credit" groups.

Overall, by the end of the week of October 8, 2007, \$161,000,000 in ABCP holdings will mature, approximately 30% of the portfolio. Maturities will exceed fifty percent (50%) by October 19. Just over two-thirds of the portfolio, or \$371,000,000, will have matured by December 20. With \$50 million or more maturing in each of the first three weeks of 2008, the portfolio cumulative maturity percentages will increase to 77%, then 86%, and finally 100% by January 25. Please refer to the chart below.



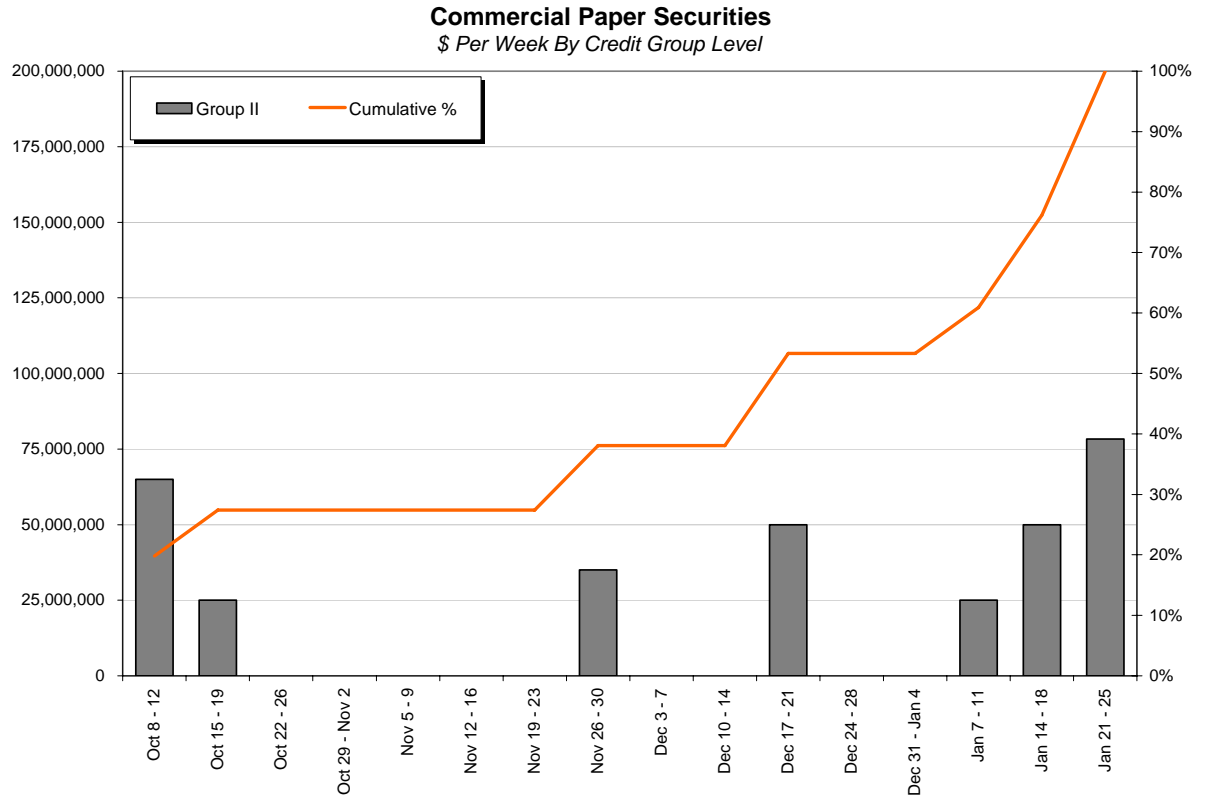
The King County Portfolio



As it relates to Group 2, with \$65,000,000 maturing in the week of October 8, approximately 20% of par will have been matured. The total will rise to nearly 28% the next week with \$25,000,000 scheduled to mature. Another \$35,000,000 holding is expected to mature on November 29, which will bring the cumulative total for Group 2 holdings to 38%. More than half (53%) of these programs are scheduled to have matured by December 20. With \$25 million, \$50 million and \$78.3 million scheduled to mature in the first three full weeks of the New Year, respectively, the cumulative maturity percentages will increase to 61%, then 76%, and finally 100% by January 25. Please see the chart below.



The King County Portfolio



Representing the greatest current known risks to the portfolio is the Group 3 holding in Cheyne Financial. This holding is scheduled to mature on October 17, 2007. If the County's investment in this program is returned on the scheduled maturity date, this would represent \$50,000,000 of the overall ABCP portfolio. The situation for Mainsail II LLC, described above, scheduled to mature on October 4, 2007, is one the County has been monitoring very closely so we have not commented directly on it here.



Strategies for Mitigating Risks

A. Outlook

In general the credit markets have improved over the past two weeks. Credit spreads in almost every sector, including ABCP, have improved or stabilized. Despite the recent improvement, there are still concerns. Citigroup and UBS AG have recently announced the write down³ of loans and other securities related to the asset backed market. Each company will realize several billion in losses associated with the write-downs. The potential for additional write-downs at other banks are possible in future quarters. Many ABCP programs are invested in securities similar to those being written down. If an asset backed program is forced to liquidate into this market it could reduce the proceeds received by the program.

The outlook for the ABCP market has improved somewhat over the past two weeks. Spreads in the ABCP and unsecured commercial paper market have narrowed to some extent. Conditions for programs with bank sponsorship have improved the most as many view the participation of a major bank in a program as a positive. Investors seem to have regained some confidence in these types of programs. Conditions in the SIV and SIV-lite sector continue to be challenging. As outlined earlier, these programs do not enjoy some of the support that other ABCP programs enjoy. Investors have not returned to these programs to the same degree they have to others.

Because of the recent market turmoil investors, rating agencies and other analysts have focused more attention on the ABCP market. This has brought about a higher degree of surveillance and scrutiny of the programs. In addition, the rating agencies have attempted to provide more transparency of and in some cases have revised their rating methodologies. At this point most investors are in possession of more information about certain ABCP programs than any point in the past. This has had the positive effect that many investors now have a better understanding of the risks of their particular holdings.

The future outlook is very much dependent on investors continuing to regain confidence in the ABCP market. If ABCP programs can roll their maturities, many of the difficulties will disappear.

B. Strategies

Weathering the turmoil in the ABCP market has become a very frustrating process. Unlike a stock or other actively traded security, there is little daily information to make judgments on. It is very difficult to develop a framework of analysis past the general characteristics of a program. An investor can't without extensive effort, for instance, analyze the daily holdings of a program and arrive at an estimation of the program's value. Investors are somewhat dependent on the rating agencies to execute the daily analysis of the programs.

³ Write down refers to reducing the book value of an asset because it is overvalued compared to the market value. A write-down is usually reflected in a company's income statement as an expense, thereby reducing net income.



Strategies for Mitigating Risks

The executable strategies in this environment are somewhat passive and dependent on future developments. The first course of action is to hold to maturity any holdings with the assumption that the securities will mature – very obvious, but the best outcome.

It may be possible at some point to liquidate some holdings. This strategy will be dependent on investor confidence returning to the market. If this happens it is possible that a secondary market will develop. The prospects of this happening may be bolstered by additional Fed cuts, a tightening of credit spreads or improvement in the markets of the asset-backed securities that make up the programs. There is no guarantee that a viable market will develop for any of the ABCP programs, but this option bears monitoring. It is possible to monitor markets and assess whether a secondary market has developed. In general, some of the factors that could bear watching are:

- Reviewing issuance levels
- Reviewing week-over-week comparisons of offering rates
- Reviewing week-over-week comparisons of assets placed
- Engaging in regular conversations with the dealer community
- Watching Commercial Paper trading screens for up-to-date secondary market offerings

If conditions improve enough to allow the sale of a security, it should be considered.



Future Approach to ABCP

We believe the County's current investment policy which provides for a 25% maximum exposure to commercial paper is reasonable. In states where commercial paper investments are permitted for government units, the maximum allocation to commercial paper is generally between 25% and 33%. We understand that the County's stated policy limit of 5% maximum exposure to any single issuer is further reduced by the County's own internal policy of 2.5% maximum and agree that this lower limit is appropriate. The 5% issuer exposure limit is consistent with most government investment pools, and with diversification guidelines in Rule 2a-7 that govern SEC-registered money market mutual funds. In reviewing the portfolio holdings at September 21, we see that maximum exposure to any one issuer (based on a \$4.1 billion pool) is 2.44%, with the average issuer at 1.3%, and two-thirds of all issuers between 0.9% and 1.7%, all well within the policy and internal limitations.

In order to provide the County with additional methods to increase its level of comfort and scrutiny on credit exposure in the County's investment pool, PFM recommends adopting usage of an approved credit list to manage the County's exposure to the commercial paper market. Those authorized to execute transactions on behalf of the county would be restricted to those issuers on the approved list. An approved list could contain both unsecuritized and ABCP issuers. The number of issuers included would be dependent on the county's needs. The use of an approved list would help to maintain a desirable credit profile amongst the county's holdings. In addition staff would be constantly aware of which issuers the county is exposed.

The construction of an approved list does require substantial upfront and monitoring work. It would require staff to gather information about certain issuers and the oversight committee to make a judgment on each issuer. Most of the information that is necessary in the process is readily available. This would include such materials as quarterly and annual reports, rating agency and broker reports, news releases and events related to the general economic environment.

Additionally, we recommend the County consider developing a credit oversight committee. The committee would be made up of key staff members. It would be the committee's responsibilities to monitor the approved credit list and recommend changes to it. Changes could include the addition, deletion or suspension of certain issuers. Ideally the credit committee would meet to discuss major events in the credit and other markets and discuss any potential actions necessary.

The specifics of a credit evaluation and monitoring process need to fit the organization; we offer a description of PFM's process here to further illustrate these recommendations.

PFM employs a similar process to evaluate and monitor credit exposure for client portfolios. All portfolio managers and traders are restricted to making purchases off of an approved issuer list. The list is consistently monitored through several means and is adjusted as conditions warrant. Internal monitoring procedures have been



Future Approach to ABCP

implemented to ensure that purchases are limited to those issuers on the approved list.

The credit committee at PFM is made up of our Chief investment Officer and several portfolio managers and traders. Meetings are held at least monthly or as conditions in the market warrant. No person has the authority to add or remove an issuer from the approved credit list. This can only be done with a recommendation from the committee.

For each issuer, PFM performs an annual review and completes a formal written review. Throughout the year earnings releases and other information is monitored. In addition, PFM has developed Bloomberg based monitoring to immediately detect any rating actions or developing events. PFM staff also takes the opportunity to attend events sponsored by broker dealers or rating agencies to keep abreast of market developments.



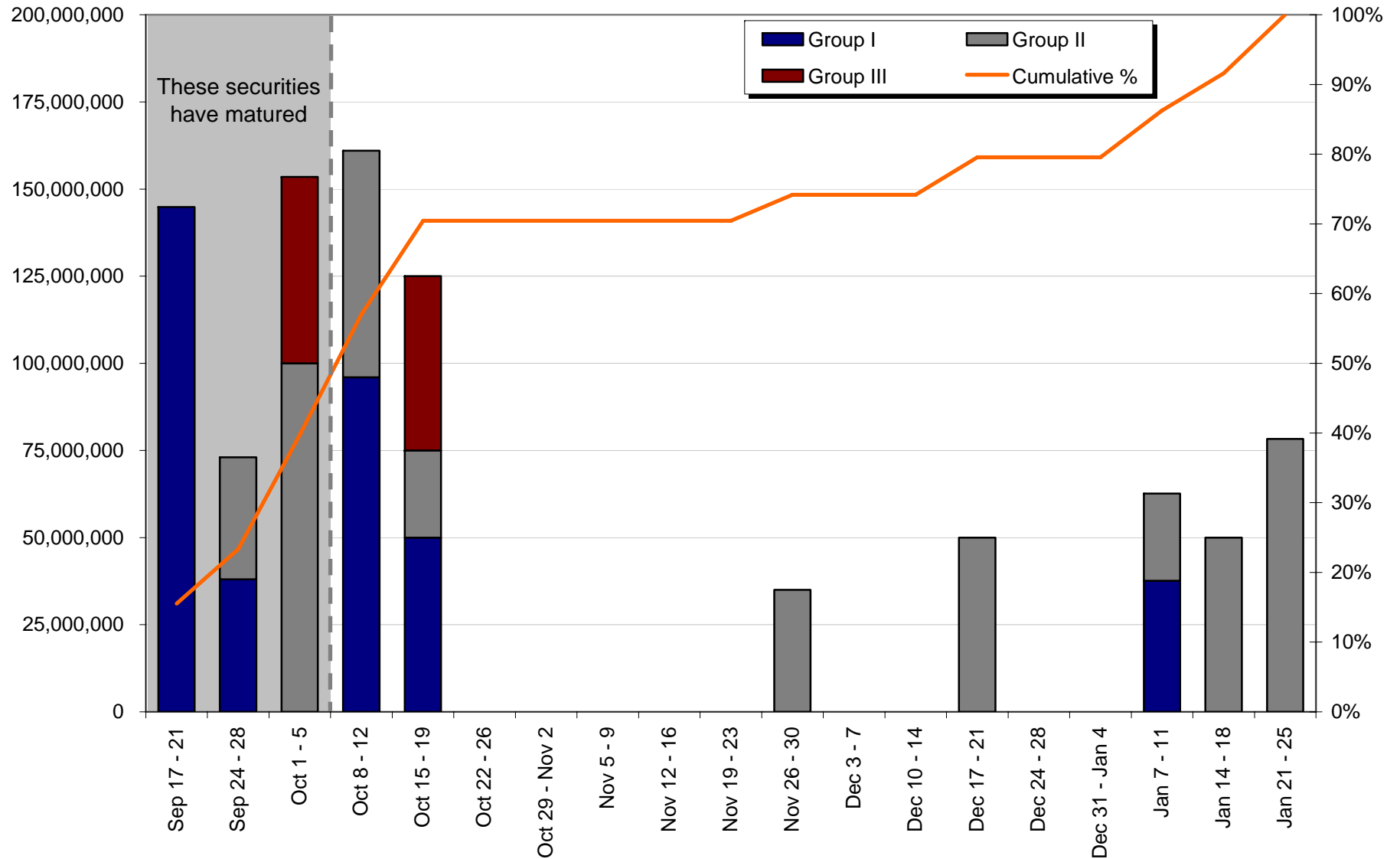
ABCP Maturity Distribution by Week

ABCP Holdings (as of September 21, 2007)

Principal Authors' Biographies and PFM Asset Management Qualifications

King County Asset Backed Commercial Paper Portfolio

Maturity Distribution - \$ Per Week By Credit Group Level



King County Asset Backed Portfolio

Issuer / Administrator	Program Type	Rating *	Group	Par Amount	Maturity Date
Orchid Funding Corporation <i>ABN AMRO Bank N.V.</i>	Corporate Loans (Receivables)	NR/P-1/F1	I	50,000,000	9/17/2007
Centrestar Capital No. 1, LLC <i>National Australia Bank Limited</i>	Highly Rated Securities	NR/P-1/F1	I	50,000,000	9/20/2007
McKinley Funding <i>Vertical Capital Investment Advisors</i>	Asset Backed Securities (CDO)	A-1+/P-1/NR	I	44,833,000	9/21/2007
Premier Asset <i>Societe Generale</i>	SIV - Securities \$ and Non \$	A-1+/P-1/NR	I	38,000,000	9/25/2007
Rhineland Funding Capital Corporation <i>IKB Deutsche Industriebank AG/ Societe Generale</i>	Securities - Hybrid Program	NR/P-1/F1	II	15,000,000	9/25/2007
Rhineland Funding Capital Corporation <i>IKB Deutsche Industriebank AG/ Societe Generale</i>	Securities - Hybrid Program	NR/P-1/F1	II	20,000,000	9/25/2007
Abacas Investments <i>Absa Bank Limited/ QSR Management Ltd.</i>	SIV - Securities	A-1+/NR/F1+	II	50,000,000	10/3/2007
Athos Funding <i>Terwin Money Management LLC</i>	Asset Backed Securities (CDO)	A-1+/P-1/NR	II	50,000,000	10/4/2007
Mainsail II LLC (3) <i>Solent Capital Partners</i>	SIV - "Lite"	B(-)/NP/NR	III	25,000,000	10/4/2007
Mainsail II LLC (3) <i>Solent Capital Partners</i>	SIV - "Lite"	B(-)/NP/NR	III	28,488,000	10/4/2007
Panterra Funding LLC <i>Citicorp North America, Inc. (CNAI)</i>	Receivables	NR/P-1/F1	I	35,000,000	10/9/2007
Rhineland Funding Capital Corporation <i>IKB Deutsche Industriebank AG/ Societe Generale</i>	Securities - Hybrid Program	NR/P-1/F1	II	15,000,000	10/10/2007
Panterra Funding LLC <i>Citicorp North America, Inc. (CNAI)</i>	Receivables	NR/P-1/F1	I	17,000,000	10/11/2007

 Grey highlightings area indicates holdings that have matured.

* S&P/Moody's/Fitch ratings. Issues that have been placed on negative credit watch are designated by "(-)".

King County Asset Backed Portfolio

Issuer / Administrator	Program Type	Rating *	Group	Par Amount	Maturity Date
Rhinebridge LLC <i>IKB Credit Asset Management</i>	Asset Backed Securities	A-1+(-)/P-1(-)/F3(-)	II	50,000,000	10/11/2007
Vetra Finance Inc <i>Citigroup Alternative Investments</i>	SIV - Securities	A-1+/P-1/NR	I	19,000,000	10/11/2007
Vetra Finance Inc <i>Citigroup Alternative Investments</i>	SIV - Securities	A-1+/P-1/NR	I	25,000,000	10/11/2007
Cheyne Finance <i>Cheyne Capital Management Limited/ QSR Management Limited</i>	SIV - Securities \$ and Non \$	A-2(-)/P-1(-)/NR	III	50,000,000	10/17/2007
Axon Financial Funding <i>Axon Financial Funding</i>	SIV - Securities	A-1+(-)/P-1(-)/F1+(-)	II	25,000,000	10/18/2007
Swedish National Housing	Sovereign Agency	A-1+/P-1/NR	I	50,000,000	10/19/2007
Abacas Investments <i>Absa Bank Limited/ QSR Management Ltd.</i>	SIV - Securities	A-1+/NR	II	35,000,000	11/29/2007
Tango Finance Corp <i>Rabobank Nederland</i>	SIV - Securities \$ and Non \$	A-1+/P-1/NR	II	50,000,000	12/20/2007
Harrier Finance US <i>Westdeutsche Landesbank GZ</i>	SIV - Securities \$ and Non \$	A-1+/P-1/NR	II	25,000,000	1/10/2008
Vetra Finance Inc <i>Citigroup Alternative Investments</i>	SIV - Securities	A-1+/P-1/NR	I	37,603,000	1/11/2008
Rhinebridge LLC <i>IKB Credit Asset Management</i>	Asset Backed Securities	A-1+(-)/P-1(-)/F3(-)	II	50,000,000	1/18/2008
Victoria Finance LLC <i>Ceres Capital Partners</i>	Asset Backed	A-1+/P-1/NR	II	53,300,000	1/24/2008
Harrier Finance US <i>Westdeutsche Landesbank GZ</i>	SIV - Securities \$ and Non \$	A-1+/P-1/NR	II	25,000,000	1/25/2008

 Grey highlighted area indicates holdings that have matured.

* S&P/Moody's/Fitch ratings. Issues that have been placed on negative credit watch are designated by "(-)".



Principal Report Authors:

John W. Molloy, CFA

Senior Managing Consultant

Mr. Molloy joined PFM Asset Management LLC in 2002 as a Senior Managing Consultant and works out of both the Harrisburg money management headquarters and PFM's Chicago office. Mr. Molloy is responsible for overall management of PFM's investment programs for the Illinois Finance Authority, Massachusetts Health and Educational Facilities Authority and a number of state-level financing authorities. He also assists in the management of the Pennsylvania Local Government Investment Trust. He is the architect of PFM's Managed Accounts Program, a multi-asset class investment solution for long-term funds, and a member of PFM's investment consulting division's investment committee.

Prior to joining PFM, Mr. Molloy spent 12 years with The Vanguard Group where he was most recently responsible for managing relationships with large pension, endowment, foundation, health care and non-profit investors and their advisors. While at Vanguard, Mr. Molloy was instrumental in developing or managing a number of new business programs including Vanguard's college savings (529 plan) programs, planned giving arrangements for higher education and non-profit entities, retirement plan services for small pension and profit sharing funds, and marketing and relationship management for pension and investment consultants.

Mr. Molloy earned an MBA degree from Cornell University's Johnson Graduate School of Management and an A.B. degree in Government & Law and Economics & Business from Lafayette College. He holds the Chartered Financial Analyst designation and is a member of the CFA Institute and the CFA Society of Philadelphia.

Robert Cheddar, CFA

Chief Credit Officer, Senior Portfolio Manager

Robert Cheddar joined PFM Asset Management LLC in 2004 as a Senior Portfolio Manager. Mr. Cheddar manages PFM client accounts across the country.

Mr. Cheddar is also responsible for corporate bond and commercial paper research. With the combined effort of the portfolio management group Mr. Cheddar develops customized investment strategies to improve clients' interest earnings while limiting portfolio risk.

Prior to joining PFM, Mr. Cheddar was a Fixed Income Portfolio Manager for the Wilmington Trust Corp. In this capacity Mr. Cheddar was responsible for managing short term and intermediate term individual portfolios. Mr. Cheddar's clients included corporations, municipalities and high net-worth individuals.

Mr. Cheddar received his MBA from the Pennsylvania State University and a B.S. in Business Administration from Susquehanna University.



Mr. Cheddar is a member of the CFA Institute and CFA Society of Philadelphia. Mr. Cheddar also holds the Chartered Financial Analyst designation.

PFM Asset Management LLC Qualifications:

Firm Background

PFM Asset Management ("PFMAM") is a leading nationwide manager of public funds and a pioneer in the local government investment pool (LGIP) business, with more than \$26 billion under management and a history as an investment manager that goes back to 1980. PFMAM is part of the PFM Group, along with Public Financial Management, a leading financial advisor, which was founded in 1975. PFMAM is registered as an investment advisor with the Securities and Exchange Commission under the Investment Advisers Act of 1940.

PFMAM has a wholly-owned subsidiary, PFM Fund Distributors, Inc., a broker/dealer and member of both the Financial Industry Regulatory Authority ("FINRA"). PFM Fund Distributors, Inc.'s only business is local government pooled investment programs ("LGIPs") and mutual funds serving local government and not-for-profit clients. Certain employees of PFMAM are also employees of PFM Fund Distributors, Inc. PFM Fund Distributors, Inc. is not involved in the sale or distribution of individual securities, nor does it maintain an inventory of securities.

In February of 2004, PFMAM acquired the cash management and investment business of Cadre Financial Services from Ambac. This business includes state investment pools in Illinois, Michigan, Minnesota, Missouri, Nebraska, and Wyoming, a registered investment company, and a non-discretionary fixed rate investment advisory business.

PFMAM operates as an independent investment advisor and not a broker/dealer. We do not sell products, or have our own portfolio, nor do we provide custodial/safekeeping services. All of our client investments are held with the client's third-party custodian.

Both Public Financial Management, Inc. and PFM Asset Management LLC (collectively referred to as the "PFM Group") are owned and managed by its 50 managing directors who collectively set overall strategic direction. The PFM Group's ownership structure is stable as some have retired or left and others have been promoted. Today, the PFM Group is the leading independent municipal financial and investment advisory company in the United States, with 32 offices throughout the country.

Our Business (An Overview)

The PFM Group has four primary business activities:



Investment Management: PFMAM provides investment advice and portfolio management for working capital and bond proceeds;

Investment Consulting: PFMAM structures simple, reliable, and fundamentally sound asset management strategies for pension, endowment and other long-term assets.

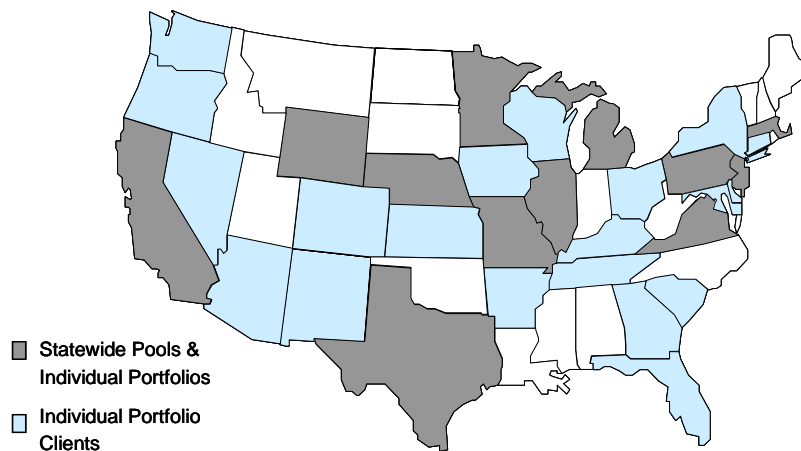
Financial Advising: Public Financial Management, Inc. manages transactions related to debt issuance;

Strategic Consulting: Public Financial Management, Inc. offers highly effective capital and operating budget advice.

Investment Management

PFMAM is focused on providing investment advice and portfolio management for public entities. As an investment manager, PFMAM brings a comprehensive spectrum of services to the business of money management. PFMAM manages both Local Government Investment Pools and individual client portfolios designed to earn competitive yields, while maximizing safety and liquidity, see the map below.

PFM States with Managed Pools and/or Portfolios:



Services include timely market-driven portfolio management, courteous customer service and state-of-the-art accounting services. The value of this service to clients is evident in the growth of assets under our management, from \$1 billion in 1986 to over \$26 billion today.

PFMAM has been a pioneer in the development of statewide investment pools. The first, established in Pennsylvania in 1980, now has over 2,600 local government participants. Today PFMAM is the investment advisor and/or administrator to thirteen statewide local government investment pools and two registered mutual funds.



- No firm administers, manages, or advises more LGIPs than PFMAM
- No firm helped create more LGIPs than PFMAM

PFMAM currently manages nearly \$12 billion in assets for government investment pools like King County's government investment pool. In sum, PFMAM has been involved in the creation and/or management of public sector investment pools in California, Oregon, Texas, Illinois, Massachusetts, Michigan, Minnesota, Missouri, Nebraska, New Jersey, Pennsylvania, Florida, Virginia, the Virgin Islands, and Wyoming. For each of these pools, we have developed investment strategies, policies, operating rules, procedures for identifying interest rate and credit risk, and formats for regular reporting.

Investment Consultant

PFM Advisors is a division of PFMAM that provides investment consulting services to pension funds, endowments, and similar funds. Structuring simple, reliable, and fundamentally sound asset management strategies results in predictable investment returns and few surprises. PFM Advisors clients include public funds, Taft-Hartley funds, corporate funds, hospital, foundation, and endowment funds.

Financial Advisor

As a financial advisor, Public Financial Management, Inc. provides capital planning, revenue forecasting and evaluation, resource allocation, debt management policy development, and debt transaction management (including structuring, documentation and execution). Public Financial Management, Inc. is the #1 Financial Advisor to public (governmental) clients for the last 4 years running, as ranked by Thomson Financial. In 2006, Public Financial Management, Inc. was Financial Advisor on over \$36 Billion of public finance debt. Public Financial Management, Inc. delivers an unmatched depth and breadth of experience and expertise that helps clients resolve the myriad of technical and financial concerns they routinely confront during the capital formation process. Public Financial Management's national reputation and consistent growth, from \$5 billion in managed debt transactions in 1986 to \$35 billion in 2006, reflect clients' recognition of the capabilities and the value the firm adds.

Strategic Consultant

As a strategic consultant, Public Financial Management, Inc. brings its clients the most effective capital and operating budget advice available. Public Financial Management, Inc. has a proven track record in using various techniques for performance management, benchmarking, revenue enhancement, and privatization. Since 1993, Public Financial Management, Inc. has helped clients eliminate billions of dollars of projected budget deficits without increasing taxes or reducing services.

Our People



PFMAM has over 150 professionals dedicated to providing investment advisory services and support to our public sector clients. The PFM Group has over 375 employees in total. Included among PFMAM's professionals are individuals who have held senior positions in state and local governments. They have many years of experience in managing public sector funds and well-established track records in the management and administration of government investment pools.

As of June 30, 2007, PFMAM managed \$25.8 billion of discretionary assets for approximately 300 public sector clients and 15 Local Government Investment Pools or 2a-7 registered money market funds for over 5,600 participants. PFMAM has had a primary focus on public sector investment management since its inception with approximately 90% or about \$23 billion of PFMAM's business focused on the public sector.

PFMAM pioneered the practice of receiving ratings for local government investment pools when we received the first rating of an LGIP in 1989 for the VA (Virginia) SNAP program. Prior to our work with the rating agencies only mutual funds registered with the Securities and Exchange Commission had been rated. PFMAM worked with Standard & Poor's to develop specific investment parameters that apply to public agency commingled funds. PFMAM has established the systems and controls to maintain and operate these funds to triple-A standards; this is central to our investment management approach.

Credit Analysis Approach

PFMAM believes that commercial paper can provide good relative value for short-term portfolios but in the current environment particular care should be taken in selecting and monitoring issuers to maintain a safe portfolio. PFMAM carefully reviews the issuer credit quality of all commercial paper investments and issuers initially for addition to an approved list, and on an ongoing basis. The approved list is monitored for changes in credit risk with each issuer reviewed whenever there is a significant change in financial conditions or credit and otherwise on a quarterly basis and documented in a report.

Credit analysis on banks and commercial paper issuers is the responsibility of PFMAM's Credit Committee. The PFMAM Credit Committee meets at least once a month or as market conditions dictate. Discussions include current market events and their potential effect on approved credits. In addition, possible additions or deletions to the approved credit list are discussed. New issuers can only be added to the approved list after a thorough review of the issuer. The review includes the firm's current financial condition including earnings and key financial ratios. In addition, PFMAM considers the firm's ability to compete in its market and whether it is a leader in its business. PFMAM also considers the current regulatory environment as well as economic conditions.



PFMAM CREDIT COMMITTEE MEMBERS

Robert Cheddar, CFA, Portfolio Manager – Chief Credit Officer
Marty Margolis, Sr. Portfolio Manager – Chief Investment Officer
Michael Varano, Sr. Portfolio Manager
Kenneth Schiebel, CFA, Sr. Portfolio Manager
Frank Varano, CPA, Trader
Greg Manjerovic, CFA, Portfolio Manager

Every PFMAM approved issue is monitored through Bloomberg and other electronic sources. PFMAM has access to such sources as Bloomberg, Reuters, TradeWeb, Standard & Poor's, and Moody's to enhance our ability to monitor approved issuers and depository banks.